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DEPT PASS AID/ANE

DEPT PASS USTR FOR GERBER AND KLEIN

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DEPT PASS TDA FOR STEIN AND GREENIP

CENTCOM FOR CG CFC-A

NSC FOR JWOOD

TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT

COMMERCE FOR HAMROCK-MANN AND FONOVIDCH

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TAGS: ETRD ECON EINV AF PK

SUBJECT: ECONOMIC AGENDA ITEMS FOR AF-PAK TRILATERAL COMMISSION

SUMMARY

¶1. (SBU) The Mission recommends that Washington agencies build the following issues into the economic agenda for the upcoming meeting of the US-Af-Pak Trilateral Commission. Action on these suggestions, mostly Afghan "asks" of the Pakistani government, would support the goals of the strategic review. We believe Pakistani cooperation on these issues would serve shared Af-Pak national interests; would facilitate the upcoming U.S. troop increase in Afghanistan; and would boost economic development in Afghanistan and perhaps also Pakistan. Afghan Minister of Commerce and Industries Shahrani plans to be in Washington at the time of the Trilateral Commission and would be a capable interlocutor on most of these issues. End Summary.

TRADE AND TRANSIT POLICY

¶2. (SBU) Afghanistan and Pakistan urgently need to energize their bilateral dialogue on trade and transit issues and move from talk to action. Their bilateral Joint Economic Commission (JEC) met in Kabul in late November 2008 and agreed to set up several working groups to work on long-standing transit trade, Customs, and border management issues. To Post's knowledge, none of these has yet convened. We believe practical action in these areas would support mutual Af-Pak interests and support U.S. regional objectives by building confidence and cooperation between the two countries.

¶3. (SBU) In particular, the two governments should commence negotiations as soon as possible on a new Afghanistan-Pakistan Transit Trade Agreement (APTA) to replace the existing one from 1965, which does not well serve Afghan trade interests. The GOP has had the GIRoA's proposed new agreement text for a year and undertook at the November JEC meeting to call a working group meeting to start negotiations in January. To our knowledge, no meeting has taken place. Major issues that the GIRoA seeks to resolve in a new APTA include:

-- Afghanistan may not import across the Waga border crossing point

goods from India or third countries and transship them across Pakistan.

-- Afghan trucks may not travel into Pakistan beyond Peshawar or Chaman, whereas Pakistani trucks may travel throughout Afghanistan and on to third countries. Afghan exporters say the resulting required unloading/reloading adds time and costs and results in significant export losses, especially for fresh produce.

-- Afghan shippers may not choose even among various Pakistani trucking firms but must ship to and from Pakistani ports using the military-owned National Logistics Cell (NLC) trucks. Imports at Karachi destined for Afghanistan must also be loaded on NLC transport. Afghan trucks are not allowed.

-- Afghan traders also complain about fees charged by the GOP on transit goods, which they say violate even the existing transit trade agreement and represent a significant non-tariff barrier to open trade between Afghanistan and other countries.

INDIAN WHEAT DONATION

¶4. (SBU) Despite assurances from President Zardari to President Karzai at a meeting in Islamabad earlier this year, Pakistani ministries have not enabled the transshipment of 250,000 metric tons of Indian wheat to Afghanistan. This issue is important beyond the shipment of the donated wheat. It demonstrates a lack of political will on the Pakistani side to deal seriously with transit trade issues that have plagued Afghan-Pakistani trade since the 1965 TTA was signed. It also is increasing incentives for the Afghans to turn toward Iran as a solution to transit trade obstacles, and the Iranians have, at least initially, been forthcoming and encouraging to Afghanistan's shift toward Iranian ports. Some GOP officials cite phyto-sanitary concerns with Indian wheat as reason for their

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opposition to transshipping it. While these are legitimate, they could be overcome by milling the wheat into flour. No one on this side of the border believes health concerns are the real reason for Pakistani non-cooperation.

PAKISTANI BAN ON WHEAT AND FLOUR EXPORTS

¶5. (SBU) Private sector wheat/flour exports from Pakistan to Afghanistan have been prohibited since May 2007. Pakistan's wheat supply situation, however, is expected to ease considerably in the next several months due to the recent purchase of nearly one million tons of wheat on the international market and the expected record or near-record wheat crop currently being harvested. Consequently, the GOP should be encouraged to lift its ban on exports of wheat/flour to Afghanistan so that Afghanistan can better meet its wheat needs before the domestic wheat crop is harvested beginning in June.

BORDER CROSSING OPENING HOURS

¶6. (SBU) Longer and better coordinated opening hours at Af-Pak border crossing points would facilitate transit not only of commercial goods, but military supplies vital to supporting the troop increase. The Mission has been urging GIRoA officials to call a high-level bilateral meeting of Customs officials to coordinate additional opening hours, particularly at Torkham in Nangahar and Weesh-Chaman in Kandahar. The need is for Border Control Posts to be open from 0600 - 1800 seven days per week. This will likely require a commitment of additional resources for parking, lighting, electricity and security on both sides of the Duran line. We expect the GIRoA and GOP also to request budgetary support to cover the overtime and increased personnel support necessary to implement expanded border crossing hours. The Mission understands DOD may be willing to assist in providing these resources. If not resolved by then, the U.S. should use the Trilateral Commission to press for prompt Af-Pak Customs cooperation on this issue. (The JEC also agreed that a Joint Customs Committee should be created.)

REGIONAL ECONOMIC COOPERATION CONFERENCE (RECCA)

¶7. (SBU) Although this conference has been postponed three times, we are hopeful that the third RECCA, May 13-14 in Islamabad, will result in concrete progress, specifically, through donor agreement to fund short-to-medium term "high impact" projects. We believe

projects that come out of the RECCA must demonstrate visible progress to the Afghan public. The RECCA can also be another vehicle for pushing Afghanistan and Pakistan to engage substantively on APTA. Occurring just about a week before the RECCA, the Trilateral Commission is an opportunity for U.S. planners to flag any last-minute issues ahead of that multilateral forum.

RECONSTRUCTION OPPORTUNITY ZONES

¶8. (SBU) Afghan and Pakistani officials will be eager for the Administration's assessment of prospects for early Congressional passage of pending ROZ legislation. The Trilateral Commission is an opportunity for U.S. officials to reaffirm what ROZs are (a tariff preference scheme meant to support private investment) and what they are not (a government-led foreign assistance program) - we find Afghan officials often need reminding. The U.S. could also describe the labor, environmental and other requirements in proposed legislation for establishing ROZs and draw the visitors out on their plans to meet them.

RICCIARDONE